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INFO RUEHXK/ARAB ISRAELI COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
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RUEHRL/AMEMBASSY BERLIN 0328

UNCLAS SECTION 01 OF 03 AMMAN 004338

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STATE FOR NEA/ELA AND EEB
TREASURY FOR SETH BLEIWEIS

E.O. 12958: N/A
TAGS: EFIN EAID ECON ENRG PGOV JO
SUBJECT: DESPITE INCREASED REVENUES, SECOND BUDGET SUPPLEMENT NEEDED
TO COUNTER FUEL SUBSIDY-DRIVEN DEFICIT

REFS: A) AMMAN 3813

B) AMMAN 3661
C) AMMAN 3557
D) AMMAN 1479
E) AMMAN 1452
F) AMMAN 483

¶1. (U) Summary: Jordan's 2007 budget and initial supplementary annex estimated USD 5.6 billion in total revenues, including foreign grants, and USD 6.1 billion in expenditures. While the GOJ's revenue projections are on-track, skyrocketing fuel subsidy costs have necessitated an additional USD 700 million budget supplement approved earlier this fall. New Minister of Finance Hamad Kasasbeh has publicly stated that fuel subsidies will not be included in the 2008 budget as part of the petroleum price liberalization process (refs C, D). Jordan currently has USD 10.1 billion in (total debt, a level that has changed little in the value of its base currencies in recent years, but has fallen as a percent of GDP as the economy has grown. The Paris Club has agreed to a Jordanian proposal to buy back $2.5 billion, which the GOJ believes will provide fiscal space to improve living standards and implement development strategies. End Summary.

Taxes Key to Increase in Government Revenues

¶2. (U) According to the Ministry of Finance, gross public revenues for 2007 were budgeted at USD 5.6 billion, a 14 percent increase from the 2006 estimate. NOTE: These budget figures include a supplementary budget annex that was announced immediately after the budget was approved. END NOTE. In the first eight months of 2007, total revenues and grants increased 7.6 percent to reach USD 3.59 billion. This increase came despite a 32.5 percent decline in foreign grants.

¶3. (U) An estimated 70 percent of domestic revenues are from taxes, 29 percent are from non-tax revenue sources, and 1 percent is from collected loan repayments. Non-tax revenues include fees, interest, licenses and mining revenues. Domestic revenues in 2007 may slightly exceed projections of USD 4.8 billion, based on domestic revenues reaching USD 3.4 billion during the first eight months of 2007 - a 10.2 percent increase over the same period in 2006. This increase is due to the expanding economy and improvement in revenue collection by tax departments. In particular, General Sales Tax revenues increased 19.1 percent, contributing 63.2 percent of the total increase in tax revenues. Customs duties also increased during the period by 1.4 percent, or USD 4.1 million. Jordan also recently increased its "sin taxes" on alcohol and tobacco. A local economist writing in a recent newspaper editorial, predicted,

however, that this tax increase might, in fact, reduce "sin tax" revenue, because it will encourage increased smuggling.

¶4. (SBU) Foreign grants were estimated at USD 134.9 million for the first eight months of 2007. The main sources of foreign revenue are historically grants from the United States and Saudi Arabia. Director General of Budget Dr. Ismail Zaghloul noted concern in June 2007 that Saudi Arabia had not transferred the monthly grant of USD 21.9 million since November 2006; he did not give a reason for the delay. NOTE: Zaghloul may not be aware of other aspects of Saudi financial support for Jordan. END NOTE.

Fuel Subsidies Increase Government Expenditures
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¶5. (U) The Ministry of Finance reported that total GOJ expenditures amounted to USD 3.53 billion during the first eight months of 2007, representing a 9.7 percent increase over the same period in 2006. This rise in total expenditures was mainly attributed to an 11.2 percent increase in current expenditures, originally budgeted at USD 6.1 billion for the calendar year, and estimated at USD 2.93 billion for the first eight months of 2007. An increase in current expenditures has been attributed in part to the rise in "defense and security" expenses, wages, and pensions, as well as a 16.2 percent increase in interest payments. According to the Ministry of Finance, the latter reflects the fiscal policy position to focus more on internal borrowing in financing Jordan's budget deficit.

¶6. (U) Although 30 percent of current expenditures in 2006 was spent on "social protection" which included fuel subsidies, the 2007 budget did not include a specific line-item for fuel subsidies. The GOJ had expected to cover subsidies for diesel, kerosene, heavy fuel oil, and liquid propane gas (LPG) through revenues generated by the sale, at market price, of all grades of gasoline. When the budget decision was made, the cost of crude oil was USD 60 per barrel or

below (ref D). Profits were anticipated even if crude sold at USD 70/barrel. At current costs in excess of USD 80/barrel, no revenue is generated, making the diesel subsidies the costliest to the government. LPG remains the most subsidized petroleum product by percentage.

¶7. (U) Jordan's capital expenditures were projected to be USD 1.3 billion for 2007. During the first eight months of 2007, capital expenditures reportedly reached USD 597.2 million. In 2006, capital expenditures of USD 1.1 billion were spent on economic affairs (34 percent); health (14 percent); education (13 percent); general services (13 percent); social protection (11 percent); public safety (6 percent); and other categories (10 percent).

Rising Fuel Costs Result in Supplemental Budget
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¶8. (U) Parliament had approved a first annex to the budget in April 2007 to allocate funds for salary increases of the civil service. At that time, the deficit was forecast at USD 548 million, a decline from 2006 and 3.4 percent of GDP. There was also a promise that there would not be any annexes without parliamentary approval. As the prices of oil and feed grains continued to skyrocket over the course of the year, however, Jordan's fuel and fodder subsidies began to place an extraordinary burden on its budget. Although the GOJ modified its livestock feed subsidy program, it decided to maintain fuel subsidies, which led to the resignation of former Deputy Prime Minister and Minister of Finance Ziad Fariz (refs B, C). The GOJ approved a second supplemental budget of USD 700 million on September 11, issued as a provisional law since parliament was in recess. USD 280 million of the second supplement was appropriated for fuel subsidies.

Despite Budget Woes, GOJ Meeting Public Debt Targets
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¶9. (U) The total debt balance at the end of June 2007 was USD 10.3 billion, which is approximately USD 84 million or almost 1 percent less than its level at the end of 2005. Due to continued GDP growth

exceeding 6 percent a year in real terms, the nominal debt-to-GDP ratio has fallen significantly from 83.1 percent of GDP in 2005 to 65.3 percent in June 2007. This reduction also means that GOJ has fulfilled the terms of the 2001 Public Debt Management Law which stipulates that total public debt should not exceed 80 percent of GDP. The GOJ is also striving to reduce its public debt to 60 percent of GDP by 2011.

¶10. (U) Domestic debt reached USD 3.2 billion through June 2007, a reduction from its 2005 level of USD 186 million or 5 percent. This brings the ratio of domestic public debt to GDP to 20.3 percent, compared to 27 percent at the end of 2005. The majority of domestic debt is in the form of treasury bills maturing in one to five years.

¶11. (U) External debt was reported in October as USD 7.051 billion, a one percent increase from 2005. 35 percent of Jordan's external debt is bilateral; 35 percent is export credit; 28 percent is multilateral and 2 percent is other. 30 percent of Jordan's external debt is in U.S. dollars; 22 percent in Euros; 17 percent in Yen; 13 percent in Kuwaiti dinars; 10 percent in British pounds and 7 percent in other currencies. The top five creditors are Japan, the World Bank, France, the United Kingdom (UK), and the Arab Fund for Economic and Social Development (AFESD). The United States is its sixth largest creditor with 7.3 percent of its debt. NOTE: Jordan's currency is pegged to the U.S. Dollar, and the fall in the dollar increases Jordan's non-dollar denominated debt. END NOTE.

¶12. (U) Of Jordan's total debt, more than half (USD 4.385 billion) is owed to Paris Club creditor countries. On October 18, Jordan successfully concluded an agreement with Paris Club members to buyback USD 2.5 billion of its debt at an average discount rate to face value of 11 percent. Repayment is scheduled to occur between January 1 and March 31, 2008. Finance Minister Kasasbeh told the Jordan Times that the debt buyback will be financed in part by funds generated from privatization efforts.

Changes in the 2008 Budget

¶13. (U) An October report by Jordan Ahli Bank reports that the budget for 2008 is estimated to be around USD 6.16 billion, with a projected deficit of USD 560 million. The government is also reported to be working on a 2008-2010 budget which will increase the role of the regional governors in the process. In previous years,

the budget was prepared mainly through the ministries.

¶14. (U) Minister Kasasbeh announced on September 21 that no oil subsidy will be included in the 2008 budget. He said full liberalization of prices would take affect as the 50-year monopoly of the Jordan Petroleum Refinery Company ends in March 2008 (ref E). In lieu of the broad subsidy, the GOJ will implement a social safety net program, providing direct cash payments to low-income citizens. A November 2006 IMF report on fuel subsidies estimated that just 21.2 percent of the subsidy was benefiting the country's poorest 40 percent of citizens.

Comment

¶15. (SBU) Assuming international oil prices continue to remain exorbitant, Jordan's budget will remain under financial pressure. High fuel costs, like food prices, continue to keep the King's and GOJ's attention as concerns of Jordan's poorest citizens (ref A). As Jordanian cities begin to be covered in election posters for the November 20 parliamentary elections, this and other economic issues that affect Jordanians' daily lives and pocketbooks are expected to be key campaign topics.

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